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Faculty of Business

# Master of Business Administration

# International Marketing

*Paper 488914*

## *Part 3*
## *Local Marketing*

AUT

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TE WĀNANGA ARONUI O TAMAKI MAKAU RAU

# Weekly Programme

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| Objective | Topics | Readings |
|---|---|---|
| **WEEK 1: Introduction: Fundamentals of International Marketing** | | |
| **WEEK 2: Market Entry Options** | | |
| **WEEK 3: Local Marketing** | | |
| Discuss how to create and implement local marketing activities | Segmentation<br>Mature Markets<br>New Growth Markets | Text: Chapter 7-10<br>Case 3.2: Levi Strauss Japan KK |
| **WEEK 4: Global Marketing (I) Brand and Product Strategies** | | |
| **WEEK 5: Global Marketing (II) Price, Distribution and Advertising Strategies** | | |
| **WEEK 6: Salesforce Management and Marketing Organisation** | | |

# The beer market

**Can Beer be an international, global product?**



# The beer market



- **Corona**
  - Became most popular imported beer in the US in 1999
  - Mexicans regard Corona as a relatively low-class beer
  - Targets two niche markets
    - Mexicans living in the US
    - Young American beer drinkers, many of whom vacationed on Mexican beaches
  - Export all over the world
- **Heineken**
  - Available in 170 countries
  - Most international beer in the world
- **Germany**
  - Over 3.500 beer brands

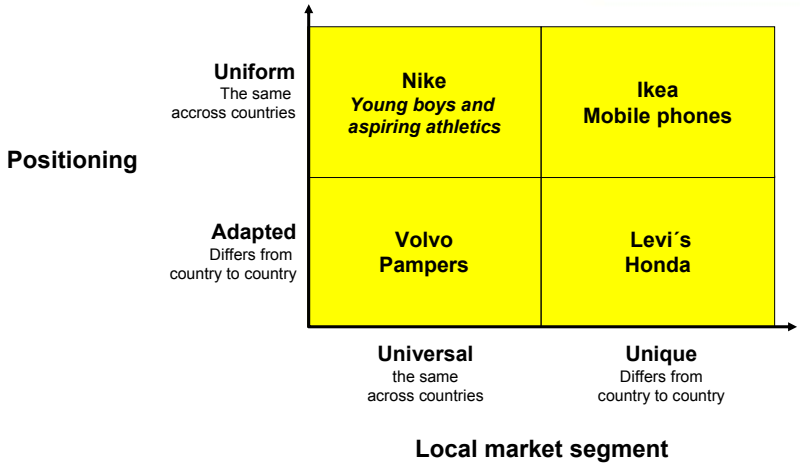
# Local Microsegmentation

➢ **Segmentation Criteria**

- Economic
  - the most basic local segmentation criterion is still economic development
- Demographic
  - the age and family structure in different countries play an important role in determining global segments
- Culture
  - people care about their identify even though a lot has been said in the media about the emergence of global segments of people
- Benefits
  - the most clearcut segmentation criteria are those which focus on the benefits sought
- Lifestyle
  - consumers start developing their own lifestyle with buying behavior involving more than simple necessities

# Segmentation and Positioning





# Local Marketing in Mature Markets

- **Local marketing in**
  - mature markets
  - new growth markets
  - emerging markets

# Three Local Marketing Environments



- **Mature markets**
  - Show slow growth apart from some high-technology markets. The customers in these mature markets are pampered by strong domestic and global companies who compete intensely for customer satisfaction
- **New growth markets**
  - Show greater purchasing power and more demanding consumers than emerging markets. Possess a rapidly developing marketing infrastructure
- **Emerging markets**
  - Characterized by low levels of product penetration, weakly established marketing infrastructure, relatively unsophisticated consumers with weak purchasing power, and weak domestic competitors

# Three Local Marketing Environments



| | Emerging | New growth | Mature |
|---|---|---|---|
| Barriers | High | Medium | Low |
| Domestic competition | Weak | Getting stronger | Strong |
| Foreign competition | Weak | Strong | Strong |
| Consumer markets | Embryonic | Strong | Saturated |
| Political risk | High | Medium | Low |
| Distribution | Weak | Strong | In store promotion |
| Strategic focus | Market development | Participation in growth | Compete for share |
| Product range | Low | Limited | wide |
| Product design | Basic | Advanced | adapted |
| Pricing | Affordable | Status | Value |

# Local Marketing in Mature Markets

- **Local marketing in**
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- **Mature markets**
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# Ultra-Heat-Treated Milk



- **Ultra-Heat-Treated Milk requires no refrigeration**
- **US**
  - Large refrigerators, therefore buy milk by gallon or half-gallon
  - Prefere cold and fresh milk (= healthy)
  - Assume technologically sophisticated food must be artificial
  - Not well accepted
- **EU**
  - Little room in their refrigerators and pantries prefere small cartons
  - More accepted

# Mature Markets



- **Competition**
  - In many mature markets intense competition has produced a management focus on customer satisfaction
  - There exists a need to make sure that existing customers will stay loyal Two factors make customers satisfied in mature markets
    - Product quality including functional performance factors
  - Emotional factors or a matter of pleasing the customer
- **Segmentation**
  - customers are increasingly particular with well-developed preferences
  - The fragmentation of mature markets presents an opportunity that there will often be a part of the market that has yet to find the kind of product desired

# Marketing Mix in Mature Markets



- **Product Policies**
  - Many Third World countries tend toward selling a low-cost "me-too" product in a mature market
    - A "me-too" product is basically a copy of another product, often with simpler features and at a lower price
  - The global marketer introducing a new kind of product to a local market has the advantage of little or no competition
- **Pricing**
  - In mature markets it is common to think of pricing in terms of selecting a target position and then using temporary deals and offers to attract customers in the short term
- **Distribution**
  - In mature markets, the distribution system is usually well developed
  - One distribution strategy is "piggybacking"
    - An existing network controlled by another company, often a potential competitor, in which the product is distributed through contracting with the competitor to move products on a fee or commission basis
- **Promotion**
  - In many mature markets where market share is the criterion of success s
    - Sales promotions are used to break the habitual choice of the loyal customer

# Pan-European Marketing

- **Europe becoming a very large single market**
- **Approaching 400 million consumers**
- **Single currency (EURO €)**
- **15 members**
  - **Belgium, Germany, France, Italy, Luxembourg, Netherlands. Denmark, Ireland, United Kingdom, Greece, Spain, Portugal, Austria, Finland, Sweden**
- **New members in May 2004**
  - **Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic, and Slovenia**
  - **Negotiation process**
    - **Bulgaria, Romania , Turkey.**

# Pan-European Marketing

- Competition
  - The integration forced large European corporations to start coordinating previously independent national operations
  - For smaller European companies and even the many large firms, the threat from these foreign entrants has been met by the creations of larger and stronger companies
  - At the corporate level, there seems to be only one strategic response possible for European firms: Get bigger and go pan-European
- Product Positioning
  - There are very few products today that can maintain different images in different countries of Europe
  - In pan-European marketing, product positioning is the same across countries

# Pan-European Marketing-Mix

- Product Policies
  - The marketing mixes of the European marketers have moved toward uniformity as the pan-European strategies are implemented
  - Most packaged goods in Europe feature packaging in at least four languages: English, French, German, and Spanish
- Pricing
  - Pan-European pricing is a particularly complicated issue
  - As the single euro currency is introduced and companies have to set a common euro price throughout the region
  - Price differentials on the same product and brand in different countries are being minimized to avoid inducing customers to buy in a neighboring country
- Distribution
  - Retail and wholesale distribution is gradually being transformed from locally based smaller units to large integrated organizations resembling those common in North America
- Promotion
  - There is increasing use of pan-European TV advertising, taking advantage of the satellites beamed across previously closed borders

# Marketing in North America



- **Regional Trade Agreements**
  - The 1994 NAFTA agreement has created increased exchange between
    - Canada
    - the U.S.
    - Mexico

- **Background**
  - Ethnic Diversity
    - A fundamental cultural factor is the region's ethnic diversity
  - Religion
    - In North America, church and state are separated by law
  - Decentralization
    - In North American, firms are spread all over the world and even into small towns

# Marketing in North America



- **Competition**
  - The U.S. is one of the most competitive markets in the world
- **Market Segmentation**
  - For segmentation purposes cultural identity can serve as a useful criterion
- **Product Positioning**
  - When positioning in the U.S., premium is placed on direct and straightforward explanations
  - The Canadian approach treats differences in cultural norms with more sensitivity and more soft sell

# Marketing-Mix in North America

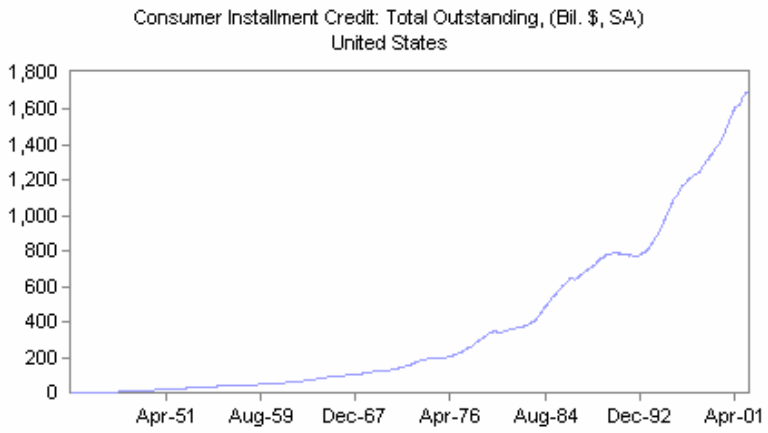


- **Product Policies**
  - Market size, affluence, and diversity have meant that the North American market offers a dizzying array of choices of product and services
- **Pricing**
  - The attractiveness of the North American market has made it a very competitive arena for many domestic and foreign producers
- **Distribution**
  - The great size of the North American continent and the wide spread of its people seems to be the main cause for a very efficient distribution system in the U.S.
- **Promotion**
  - North American communications media are similar to media elsewhere, but the use of advertising and commercials is greater in North America

# Increased Credit Use in the USA



- **More and more consumers are fueling their affluent lifestyles with credit that is easily available, and accepted, as a normal way of life in the United States.**




Source: www. Economy.com

# Local Marketing in Growth Markets

- **Local marketing in**
  - mature markets
  - **new growth markets**
  - emerging markets
- **New growth markets**
  - Show greater purchasing power and more demanding consumers than emerging markets. Possess a rapidly developing marketing infrastructure

# Growth Markets

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- **Two Kinds of Markets**
  - Markets that are relatively rich in natural raw materials
  - Markets that have turned toward Western-style capitalism more recently, with the help of foreign direct investment
- **The Role of Trade Blocs**
  - Membership in trade blocs plays a very important role for two reasons
    - It makes the country more attractive to foreign investors
    - It creates an trading region with an enlarged market potential
- **Market Segmentation**
  - New growth markets are in the growth phase of the PLC
  - Market segmentation in these countries differs from that in the developing countries primarily in the degree to which a core middle class is developed
- **Product Positioning**
  - In new growth markets it is easy to observe the attention given to well-known brand names

# Marketing-Mix in Growth Markets



- **Marketing Tactics**
  - Product
    - Basic localization to make sure the product functions well is necessary in these markets, and customers can be as demanding as elsewhere
  - Pricing
    - Pricing is important but can largely reflect the same considerations as in the advanced markets—demand, costs, competitive conditions
  - Distribution
    - Distribution is very important and warrants larger margins and more support services than elsewhere
  - Promotion
    - Promotional support, tie-ins with local representatives, and an open mind in regard to trusting locals will be more justified in the future

# Megatrends in Asia



- **From Government driven to market-driven economies**
- **From villages to supercities**
- **From agricultural society to information age**
- **From labor-intensive to high-technology instustries**
- **From west to east, as Asia becomes the center of the world**

Source: John Naisbitt, Megatrends Asia, 1995)

# Population in New Asian Growth Markets

*(year 2000, in millions)*

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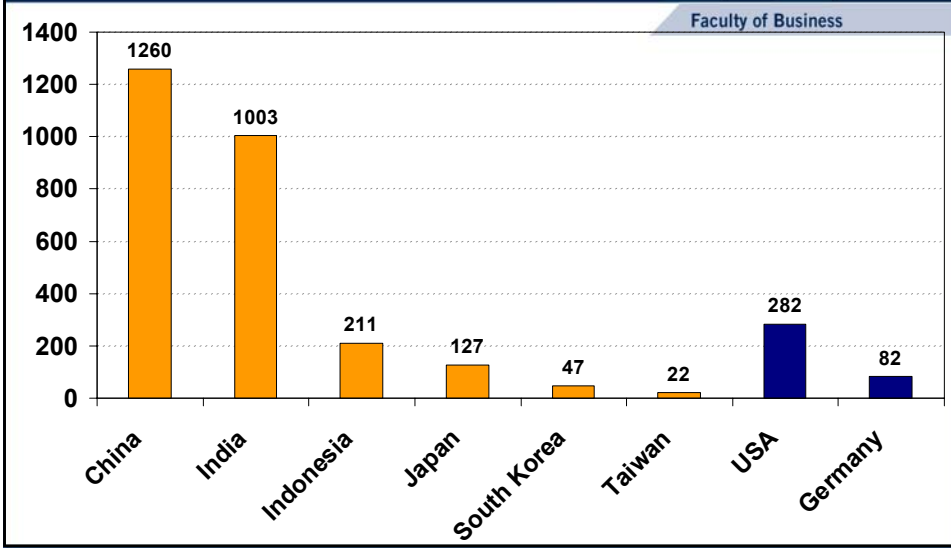


# GDP in New Asian Growth Markets

*(year 2000, US$bill)*

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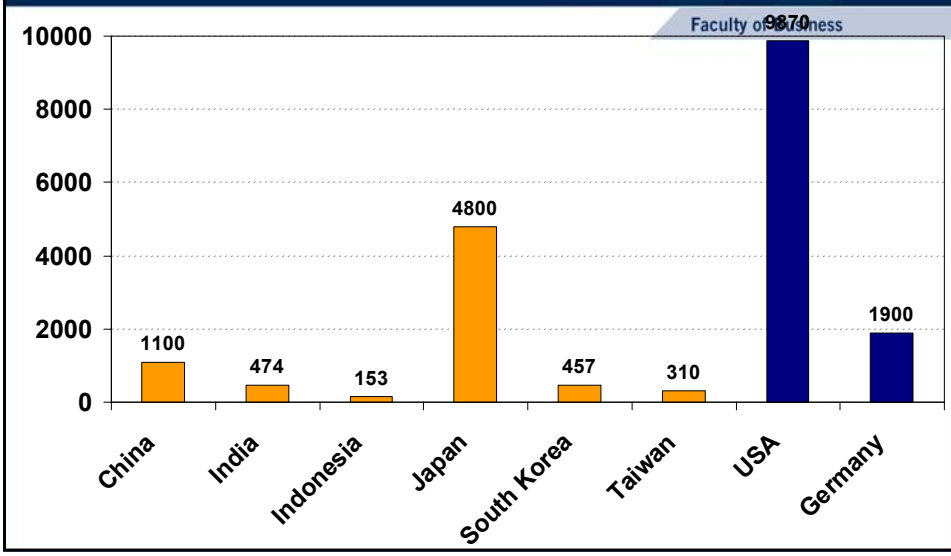


# Marketing in the New Asian Growth Markets



- **Market Environment**
  - Several of these countries are ethnically homogeneous while others are populated by several racial groups
- **Regional Trade Agreements**
  - The Association of South East Asian Nations (ASEAN) was created in 1967
  - APEC (Asia-Pacific Economic Cooperation) is a large association that spans both sides of the Pacific
  - In 1992, ASEAN countries met to formalize a far-reaching trade agreement forming the ASEAN Free Trade Area (AFTA)
- **Market Segmentation**
  - The economic upswing in the Asian high-growth markets has led to the emergence of a significant middle class in Thailand known as the "have somes"
  - However justified from an economic perspective, avoiding the rural areas where people tend to be less well off can create some political problems
- **Product Positioning**
  - The Asian markets' desire for global identification has made many multinationals with more mundane products use global standardization in their positioning strategies

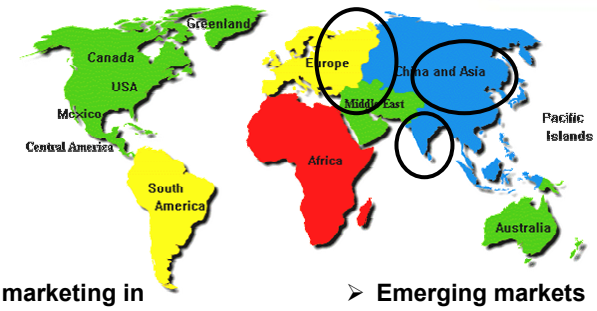
# Marketing-Mix in the New Asian Growth Markets



- **Product**
  - Policies: The emphasis on these markets as followers of global mature markets makes standardized product policies natural
  - Design: The Asian consumer is generally more eager to achieve "a harmonious whole" than Western individuals
  - New Products: The buyers in Asian markets are basically eager to get access to the products they see available in mature foreign markets
- **Pricing**
  - In Asia as elsewhere, the global marketer faces a choice between a high skimming price strategy and a lower penetration price strategy
- **Distribution**
  - Many observers agree that the most visible sign of economic growth in the Asian markets is the dynamism of the urban retail sector
- **Promotion**
  - By and large the promotional strategies employed by multinationals in Asian markets have been only minimally adapted from elsewhere

# Local Marketing in Emerging Markets



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# Local Marketing in Emerging Markets

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- **The macroenvironment in the typical developing market is characterized by uncertainty**
- **Consumer needs tend to be basic and easy to identify**
- **Market Segmentation**
  - In these markets, income level represents the basic segmentation criterion
    - Effective income measures are defined in terms of access to convertible currency

# Marketing-Mix in Emerging Markets



- **Product Positioning**
  - product policy a key issue
  - Customer needs tend to be basic and domestic alternatives weak
- **Pricing**
  - The balance between affordability and upper-end positioning
  - The lack of purchasing power means that the marketer often must find ways of offering a simpler product
- **Distribution**
  - Unless effective ways of distributing the product can be found or created, market entries might be thwarted and economic growth of the developing countries will not take off
- **Promotion**
  - Promotion in developing markets is initially limited because of lack of broadcast media

# Marketing in China



- **China has a population of 1.2 billion people which is the largest in the world**
  - With its underlying strength in natural resources and able and disciplined worker the Chinese economy has so far been relatively untouched by the Asian Crisis
  - Despite the size and potential of the Chinese market its fast-growing purchasing power is still low
  - Market Segmentation
    - Geographic region
    - Urban/rural split in the typical emerging market pattern
  - Product Positioning
    - The China market is open for global brands and standardized campaigns

# Entry Barriers in China



- Import License Controls
  - **The Ministry of Foreign Trade and Economic Cooperation (MOFTEC)**
- Protective Tariffs
  - **With the entry into the WTO, the government has promised to continue tariff reductions to meet the level of the other WTO members**
- Foreign Exchange Control
  - **Foreign exchange is controlled by the State Administration of Foreign Exchange Control**
- Foreign Trading Companies
  - **With ongoing reform, and WTO entry, the government-controlled trading companies have lost their monopoly**

# Marketing in China



- **Product Policies**
  - Chinese consumer buy foreign products because of no availability of similar products and the superior quality of foreign products
- **Pricing**
  - Most Chinese customers are price-oriented out of habit and are not willing to pay more for alleged superior quality
- **Distribution**
  - Most distribution channels are controlled by the government
  - Guanxi: Mutual good feeling and trust
- **Promotion**
  - Strictly controlled by the government

# Westernization of Chinese Consumers



- Christmas shopping is becoming more important than Spring festival
- Department stores use x-mas decoration like Santa Clauses, trees with lights, bells etc
- Trend across all generations and social classes

# Importance of Guanxi
## (good relations or connections)



**"Guanxi seems to be the lifeblood of the Chinese business community, extending into politics and society. Without guanxi one simply cannot get anything done … with guanxi anything seems possible"**
(Davis/Leung/Wong, Benefits of Guanxi, in: IMM, 1989)

- **To overcome distrust among partners, Chinese develop family-like links, more extensively than almost any other nation**
- **Family is a system of contacts rather than purely an emotional unit as in the West**
- **Individuals make decisions on the basis of family ties or social connections rather than objective issues**
- **Long-term not short-term phenomenon**
- **Requirements for Guanxi**
  - Each party is fully committed to each other
  - Honor your obligations

Source: Tang/Reisch; Erfolg in China-Geschäft

# Cultural Differences



| | | |
|---|---|---|
| ➢ *Present yourself* | Highlight yourself<br>Self confident<br>Be dynamic and pushy | Be part of a group<br>Enjoy respect<br>Be helpful, co-operative |
| ➢ *Discussion behaviour* | Offensive, direct<br>Inquisitive, active<br>Engaged, emotional<br>Collegial | Defensive, indirect, discreet<br>Hesitant, reactive<br>Relaxed, patient<br>Respectful, distanced |
| ➢ *Conflict management* | Confront conflicts<br>Be more specific<br>Dramatisize<br>Reject, deny | Ignore<br>Generalise<br>Relaxed attitide<br>Pull back;<br>no direct feedback |

Source: Tang/Reisch; Erfolg in China-Geschäft

# The Automotive Industry in China

# China … land of extremes

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# China … land of extremes

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# The automotive boom will bring problems

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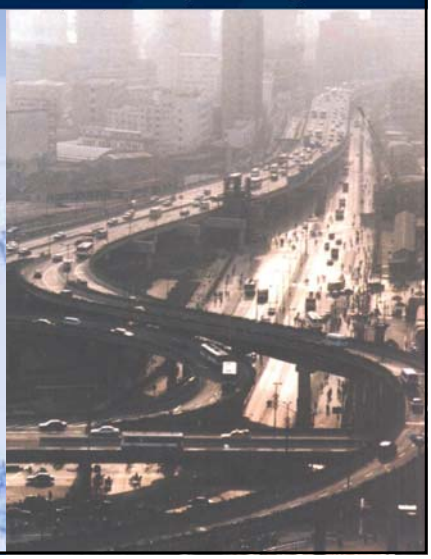
- People living in metropolitan areas = 480 Mill (=EU + USA)
- Only 1% of city residents own a car, though 32% intend to by one in the next 5 years
- As a consequence
  - Pollution
  - Traffic jams
  - Cities get bigger and cars will be necessary to travel



# Light Vehicle Sales in China

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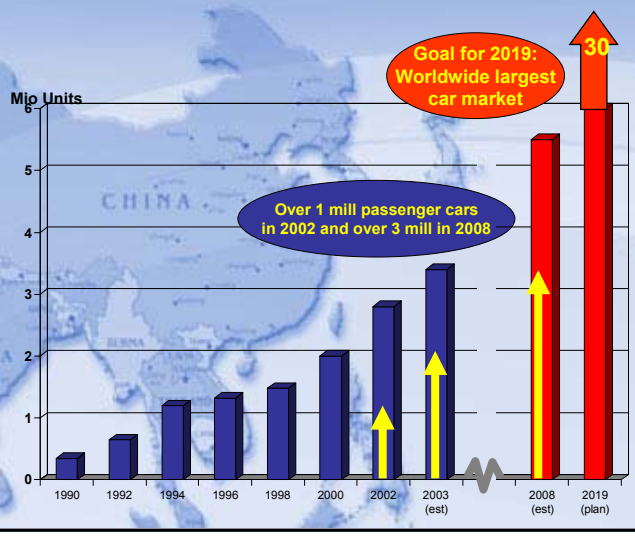


Source: J.D. Power & Associates; in: www.awknowlege.com; June 2003

# Key figures of the Chinese car market



- **Around 100 automotive manufacturers**
  - Most produce less than 100.000 units pa
- **40 to 50 new models introduced in 2003 by foreign joint ventures**
- **Intense price competition**
  - Price declined by about 8% in 2003, following 7-8% in 2002
- **90% of car purchases are done by cash**
  - China´s local consumer financing companies have yet to provide sufficient and sophisticated lending services
  - Chance: new consumer groups can afford a car

Source: J.D. Power & Associates; in: www.awknowlege.com; June 2003

# Taxi companies are key customers

- **Sales dominated by company (esp Taxi) and government customers; sales to private customers increase strongly**
  - Meanwhile over 50% private sales

# Impact of World Trade Organisation



- Opens the market and increases competition
- Classical Management functions become more important
  - Marketing
  - Human Resources Management
  - Accounting
- Local Production vs. Import
  - Less market entry barriers
- Wholly Foreign Owned Enterprises versus Joint Ventures
- Automotive impact
  - Less import tariffs from 80-100% to 25% by 2006
  - No import quotas by 2005
    - Licensing law: a limited number of license plates are released every month, which must be bid on at monthly auctions (ie October 2002 3,200 plates for an average price of US$ 3,500)
  - Independent sales without Chinese Partners
  - Foreign financial institutes are allowed to offer automotive finance

Source: M. Taube, Universität Duisburg-Essen

# Volkswagen´s investment into China



**1978 first meetings of Volkswagen in China**

Toyota and General Motors were first choice partner of China; however, both decided not to invest at that stage

上海大众

- **1984 Joint Venture**
  **Shanghai Volkswagen Automotive Ltd**
  - Sales 2002: 300.000 units
  - Employees 2000: 11.000 pers

一汽－大众

- **1991 Joint Venture**
  **First Automotive Works Volkswagen Ltd**
  - Sales 2002: 210.000 units
  - Employees 2000: 7.000 pers

# Challenges of co-operative internationalisation strategies in China

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**Market**

- **Lack of efficient legal framework**
- **Closed market**
  - High tariffs
  - Import quotas
  - Chinese majority joint ventures
  - Increasing local-content

**Management**

- **Different business styles and values**
- **Corruption**
- **Bureaucracy**
- **Language problems**
- **Different learning structures**
- **Difficult to find skilled staff**

Source: Mercado Solutions Asia Ltd. 2000; Bennett 1998, p. 190; Posth/ Bergmann 1995

# Joint Ventures from a non-Chinese car manufacturer's view

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- **Pros**
  - **Market entry into protected market**
  - **Lower tariffs**
  - **Contact to local authorities**

- **Cons**
  - **Long starting process**
  - **Difficult to manage and lead**
  - **Lack of skilled personnel**
  - **Must buy parts locally**
  - **Knowledge transfer**
  - **Difficult to control sales and service network**
  - **Image of locally produced product**
  - **Danger of know-how transfer not only from foreign joint-venture to chinese partner but also to other foreign investors**
    - **FAW: Volkswagen, Toyota, Mazda**
    - **SAIC: Volkswagen, GM, Isuzu**

# Case 3.2 Levi Strauss Japan K.K. Selling Jeans in Japan

- **DISCUSSION QUESTIONS:**

1. What are the key success factors (KSFs) in the Japanese marketplace?
2. To what extent do the Levi Strauss' FSAs and CSAs match the KSF's. How has Levi's been able to leverage its country-of-origin to become a leading brand? Can other American jeans do the same?
3. How would you explain the apparent success of LSJ's advertising campaign stressing American values in Japan?
4. List the pros and cons of the different distribution alterna-tives facing LSJ. Which one do you think has the best chance of succeeding?
5. Would you retain the premium positioning of Levi's in Japan? Why/Why not?

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| **WEEK 3: Local Marketing** | | |
| **WEEK 4: Global Marketing (I) Brand and Product Strategies** | | |
| Discuss the emergence of standardized global brand and product marketing strategies | Standardization<br>Brand Management<br>Product Strategy | ext: Chapter 11-12<br>ase: Disney in France; in Hill, International Business |
| **WEEK 5: Global Marketing (II) Price, Distribution and Advertising Strategies** | | |
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